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SUBJECT: DEFENSE MINISTER ASSAILS "BUDGET OF RUIN"

Classified By: Ambassador William Taylor for reasons 1.4 (b,d).

Summary

¶1. (C) Defense Minister Yekhanurov has publicly called the 2009 defense budget "a budget of ruin" and demanded a revision. Yekhanurov had earlier told the Ambassador that he had held "very unpleasant conversations" with PM Tymoshenko about defense spending and warned the government "not to play with the armed forces." Yekhanurov said low levels of defense spending -- 0.85% of GDP -- put continued Ukrainian participation in Kosovo and Liberia peacekeeping operations at risk. In statements to the press, Tymoshenko rejected Yekhanurov's claims. Budget woes have already caused President Yushchenko to announce postponement of the transition to a professional army for five years. End Summary.

"Budget of Ruin"

¶2. (U) Defense Minister Yuriy Yekhanurov on February 17 publicly termed the 2009 defense budget "a budget of ruin." He derided defense spending -- at 0.85% of GDP -- as being on par with that of Moldova or Luxembourg. Yekhanurov said that without a revision upward, Ukraine would have to scale back its participation in peacekeeping operations in Kosovo or Liberia. He said Ukraine had only four months worth of funding for PKOs in the budget.

"All Life is Struggle"

¶3. (C) Yekhanurov told the Ambassador recently that he had held "very unpleasant talks" with Prime Minister Tymoshenko on the defense budget and warned the government "not to play with the armed forces." Yekhanurov noted that while he had secured additional funding for military pay, the government had in turn sent "a huge auditing group" to monitor spending. Yekhanurov underlined that getting a new defense budget was his "primary task." With the budget crisis in mind, he recalled to the Ambassador a saying from the Soviet era: "all life is struggle."

PM Rejects Yekhanurov's Claims

¶4. (U) PM Tymoshenko rejected Yekhanurov's calls for increased military spending in comments to the press on February 18. She insisted that there had been no delays in financing the military and countered that the MOD had misused funds by overpaying "monopolist entities." She cited an instance of the MOD disbursing 500,000 hryvnia in separation pay to a retiring serviceman as evidence of waste and abuse. On February 19, Yekhanurov disputed Tymoshenko's claim telling reporters that the separation pay in question had been disbursed to a retired general of the Ministry of Justice who had no connection with the MOD.

President Calls for Increase

15. (U) During a visit to a military unit on February 19, President Yushchenko characterized the current military budget as "insignificant." He reiterated the call for the GOU to increase defense spending when amending the 2009 budget. He expressed concern over the absence of funds to develop the armed forces, although he expressed satisfaction with the progress of defense reform in recent years.

2009 Budget: Half of MOD Request

16. (SBU) After four attempts, the Rada passed a 2009 budget bill on the narrowest of margins in December. President Yushchenko signed the budget into law on December 29, but only after extracting a promise from PM Tymoshenko that the Rada would later amend the budget. Upon its passage, Yekhanurov characterized the 2009 defense budget as "destructive" to the armed forces.

17. (U) Yekhanurov said that although the Rada approved 11.65 billion hryvnia (\$1.45 billion) for defense expenditures, the MOD would actually receive only 8.6 billion hryvnia (\$1.07 billion) because of expected shortfalls coming from the so-called "special fund." The special fund, which is generated by sales of MOD equipment and property, has not met projected levels in previous years.

18. (U) On February 19 the MOD stated that 7.4 billion hryvnia

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(\$925 million) of the 2009 budget would come from the general fund (regular budget) while 4.2 billion (\$525 million) was supposed to come from the special fund. To meet its needs, the MOD stated that a budget of 32.4 billion hryvnia (\$4.05 billion) for 2009 would have been optimal. Instead, the MOD had settled on a request of 17.5 billion hryvnia (\$2.19 billion) for 2009. The MOD statement concluded that the budget - as passed - could lead to reduced unit readiness and manning, mass resignations, and an end to armaments upgrades.

President Postpones Shift to Professional Military

19. (SBU) On January 10, Yushchenko signed a decree postponing transition to a professional military for an additional five years. The Ukrainian MOD currently consists of an estimated 148,000-150,00 uniformed and 43,000-50,000 civilian personnel. Officers make up approximately half of the active armed forces. The MOD's 2007 "White Book" envisioned a force of 51,000 contract professionals and 44,000 conscript soldiers by the end of 2008. The current term of service for conscripts is 12 months. Most professional soldiers sign an initial contract of three years.

110. (SBU) Yushchenko attributed the need to postpone transition to a professional army to budget shortfalls. The chairman of the Parliamentary Committee on National Security and Defense (and former Defense Minister), Anatoliy Hrytsenko, criticized the decree, charging that Yushchenko broke his promise of securing a fully professional military by 2010. Meeting with the Ambassador in January, Hrytsenko agreed that the 2009 budget covered less than half of the military's needs.

Far short of 2-3% of GDP envisioned in State Program

111. (U) Yekhanurov has underlined that the 2008 defense budget was insufficient to meet defense reform goals outlined in the State Program for Development of the Ukrainian Armed Forces 2006-2011. The State Program, approved in 2005,

called for transition to a fully professional force by the end of 2010, among other reform goals. The Program called for a defense budget of two percent of GDP 2006-2007, three percent of GDP 2008-2010, and a return to two percent in the following years.

Experts Agree Low Budget Harms Reform

¶12. (SBU) The Razumkov Center, a think tank that has been working on defense issues since 2000, agreed in a recent report that the GoU underfunds the military. Defense experts Mykola Sungurovskiy and Oleksiy Melnyk of the Center told Poloff that the 2008 budget was 50 percent below target for training and 30-40 percent below target for equipment procurement and upgrades.

¶13. (SBU) Analyst Viktor Chumak of the International Center for Policy Studies (ICPS) said that military reform had stalled in the past two years because of the insufficient budgets. Underfunding, which he attributed to GOU leaders' lack of strategic vision, had slowed improvements to training and equipment. He estimated that the armed forces need 15-20 billion hryvnia (\$1.8 - 2.3 billion) in the coming year to meet reform goals. He estimated MOD would need up to 50 billion hryvnia (\$5.9 billion) in the next three years to achieve a professional military

Comment

¶14. (C) MOD is not immune to the budget pressure stemming from Ukraine's overall economic crisis. Thus far MOD appears to be meeting its most essential commitments. As the Defense Minister has indicated, however, it remains to be seen how long this can go on. With the defense budget at one half (or less) of the level the State Program called for, the shortfall is impacting the tempo of Ukraine's defense reform -- such as the move to a professional military -- and Ukraine's ability to deepen interoperability with NATO.

TAYLOR